

Message Text

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NOFORN

FROM AMBASSADOR

E.O. 11652: GDS

TAGS: MASS

SUBJ: SECURITY ASSISTANCE FOR JORDAN

REF: STATE 31505

1. SUMMARY: FUTURE SECURITY ASSISTANCE TO JORDAN IS INEXTRICABLY BOUND TO FLUID MIDEAST SITUATION. IN SHORT TERM, TOTAL LEVEL WILL BE CHIEFLY A FUNCTION OF US POLITICAL OBJECTIVES VIS-A-VIS JORDAN IN MIDEAST PEACE NEGOTIATIONS OVER THE NEXT YEAR. SECONDARY US OBJECTIVES SHOULD BE: A) TO MINIMIZE ADVERSE LONG-TERM ECONOMIC EFFECTS OF SUCH AID; B) TO BEGIN OVER MID-TERM TO CHANGE US FOCUS FROM BUDGET TO DEVELOPMENT AID; C) TO SHIFT SIGNIFICANT PORTION OVERALL AID BURDEN TO JORDAN'S OIL RICH NEIGHBORS; AND D) TO NEGOTIATE FOR ATTAINMENT U.S. POLITICAL OBJECTIVE AT MINIMUM COST TO U.S. IN TERMS OF MIL ASSISTANCE.

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2. UNLIKE U.S. POLITICAL REQUIREMENTS, MASSIVE JAF MILITARY

"REQUIREMENTS" FOR JORDAN ARE SUBJECT TO CONSIDERABLE QUESTION ON OUR PART. MAJOR FACTORS DRIVING JORDANIAN MILITARY REQUESTS ARE MASSIVE BUILDUP IN SOPHISTICATED GROUND AND AIR ARMAMENTS BY ALL ITS NEIGHBORS, AND JAA'S LACK OF ADEQUATE COUNTER MEASURES TO PROVIDE REASONABLE DEFENSE PARTICULARLY IN AIR DEFENSE AREA. THIS WEAKNESS EPITOMIZED IN JORDANIAN EYES BY JAA'S LIMITED PARTICIPATION IN OCTOBER WAR WHICH HAS BEEN RATIONALIZED IN PART ON BASIS LACK OF AIR DEFENSE. INTERNALLY, GOJ REACTION TO BREAD AND BUTTER ASPECTS OF ZARQA ARMY "MUTINY" WILL UNDOUBTEDLY INCREASE MILITARY BUDGET REQUIREMENTS (PAY INCREASE, TROOP BARRACKS, ADDITIONAL RETIREMENT BURDEN, NEW OM ITEMS OF CLOTHING AND EQUIPMENT, FAMILY HOUSING, COMMISSARIES AND PX'S, ETC.). ACTIVE JORDANIAN ROLE IN MIDEAST NEGOTIATIONS WILL ALSO INCREASE GOJ CIVILIAN BUDGET EXPENSES: 1) FOR PROPITATING THROUGH GOVERNMENT MILITARY AND CIVILIAN PROGRAMS SIGNIFICANT EAST BANK ELEMENTS OPPOSED TO GOJ INVOLVEMENT, AND 2) FOR FINANCING POLITICAL ACTION CAMPAIGN ON WEST BANK IN GOJ CONTEST AGAINST PRESUMABLY WELL-FINANCED ISRAELI AND PLO PROGRAMS. FINALLY, SOME ADDITIONAL ASSISTANCE TO DEFICIT RIDDEN JORDANIAN BUDGET MAY BE REQUIRED TO OFFSET EFFECTS ON PALESTINIAN REFUGEE POPULATION OF JORDAN FROM POSSIBLE REDUCTION IN UNRWA BUDGET NEXT YEAR. MAJOR QUESTIONS WILL PROBABLY BE: 1) POSSIBLE GOJ BID FOR MULTI-HUNDRED MILLION DOLLAR AIR DEFENSE SYSTEM, 2) US AND GOJ EFFORTS TO ATTRACT FURTHER FINANCING BY OIL-RICH MIDEAST STATES, INCLUDING THEIR GUARANTEES FOR FMS CREDIT FOR JORDAN: AND 3) OUR ABILITY TO KEEP DEFENSE EXPENDITURES IN CHECK IN ORDER TO ACHIEVE OUR ECONOMIC DEVELOPMENT OBJECTIVES.

3. UNDER ALL ASSUMPTIONS REGARDING MIDEAST SITUATION--I.E., 1) A NEW WAR, 2) NO WAR/NO PEACE, OR 3) SOME FORM OF MIDEAST PEACE WITH CONTINUATION OF RADICAL ARAB OPPOSITION--WE SEE A NEED FOR A STRONG JORDAN AND CONTINUED HIGH LEVELS OF OUTSIDE MILITARY AND SUPPORTING ASSISTANCE, WITH U.S. CONTRIBUTION HOPEFULLY RELIEVED SOMEWHAT BY OTHER DONORS. OUR RECOMMENDATION REGARDING AID LEVELS ARE BASED ON MEDIAN POLITICAL, MILITARY AND ECONOMIC ASSUMPTION. FOR COMING YEAR WE ASSUME NO DRAMATIC CHANGE IN CURRENT CEASEFIRE AND MIDEAST POLITICAL SITUATION BUT INCREASED INTERNATIONAL FOCUS ON JORDAN FOLLOWING EGYPTIAN AND SYRIAN-ISRAELI DISENGAGEMENTS; WE RECOMMEND FOLLOWING FY 76

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AID LEVELS AS BASIS OF OUR NEGOTIATIONS WITH GOJ: \$60 MILLION MAP; \$50 MILLION FMS CREDIT TO BE FINANCED BY OUTSIDE DONORS; \$60 MILLION IN SUPPORTING ASSISTANCE.

4. FINAL FY 76 AID LEVELS WILL BE A FUNCTION OF: A) FINAL LEVEL ACHIEVED IN OUR FY 75 REQUEST TO CONGRESS; B) CONTRIBUTION OF OTHER DONORS; C) JORDANIAN REQUESTS, AND MOST IMPORTANT D) COURSE OF TOTAL MIDEAST SITUATION.

5. IN OUTYEARS, WE POSIT MODERATELY OPTIMISTIC ASSUMPTION OF CONTINUED CEASEFIRE AND FURTHER PROGRESS TOWARDS PEACE THROUGH CURRENT MIDEAST INITIATIVE WITHIN NEXT TWO TO THREE YEARS. SUCH CONDITIONS WOULD PERMIT JORDAN BY END OF DECADE TO SHIFT SIGNIFICANT RESOURCES AWAY FROM MILITARY IN THE INTEREST OF INCREASING THE AMOUNT GOING TO THE DEVELOPMENT SECTOR, BUT WOULD REQUIRE CONTINUATION LOWER LEVELS GRANT MAP FOR SUPPORT PURPOSES AND RELATIVELY HIGH LEVELS OF SUPPORTING ASSISTANCE FOR BALANCE OF PAYMENTS REASONS. END SUMMARY.

6. POLITICAL SETTING: IT IS DIFFICULT TO PREDICT SECURITY IMPLICATIONS FOR JORDAN OF EVOLVING CURRENT MIDEAST NEGOTIATIONS. WITH CONCLUSION SYRIAN-ISRAELI DISENGAGEMENT. IT IS ANTICIPATED IN JORDAN THAT NEGOTIATIONS WILL TURN TO THE JORDANIAN FRONT--WHICH COMPRISES MOST FUNDAMENTAL AND DIFFICULT ARAB-ISRAELI ISSUED; WEST BANK, JERUSALEM, PALESTINIAN REFUGEES AND STATUS OF PLO AND JORDANIAN ROLES IN NEGOTIATIONS.

7. ALTHOUGH NEXT FEW WEEKS OR MONTHS MAY PRODUCE CLEARER PICTURE OF INTER-ARAB ALLIANCES AND RELATIONSHIPS, WE WOULD SKETCH OUT THE FOLLOWING CONTINGENCIES OVER NEXT YEAR AND SELECT MEDIAN ASSUMPTIONS FOR PLANNING PURPOSES:

(A) WORST CASE: INCREASE THREAT OF FULL-SCALE WAR WITH ISRAEL OR WITH SYRIA/IRAQ, WHICH WOULD BRING GOJ PRESSURES FOR MASSIVE INCREASE IN GOJ INVENTORIES AND RAPID ACQUISITION SOPHISTICATED WEAPONRY, INCLUDING MODERN AIR DEFENSE CAPABILITY. WE DISCOUNT IMMINENT ISRAELI THREAT ON THE BASIS OF CURRENT PEACE EFFORTS, AND APPARENT PRESENT DISPOSITION IN EGYPT, JORDAN AND EVEN SYRIA TO MAINTAIN CEASEFIRE. WE ALSO DISCOUNT COMBINED SYRIAN/IRAQI ATTACK ON JORDAN BECAUSE OF IMPROVED GOJ-SYRIAN RELATIONS AND JOINT INTEREST IN SEEKING MIDEAST PEACE. MAJOR SPOILER WOULD
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BE RADICAL COUP IN EITHER EGYPT OR SYRIA WITH CORRESPONDING GAIN IN PRO-PLO FORCES INIMICAL TO JORDAN (AND PRESUMABLY US) POLICY IN MIDEAST NEGOTIATIONS. HOWEVER, THREAT TO JORDAN WOULD BE TEMPERED BY SOME POSSIBILITY OF ISRAELI REACTION TO RADICAL ARAB ATTACK AGAINST JORDAN.

(B) BEST CASE: EVEN UNDER A FORMAL AND FIRM MIDEAST PEACE DURING NEXT YEAR, JORDAN WILL STRIVE FOR A CREDIBLE MILITARY DETERRENT AGAINST ENORMOUS SOVIET-SUPPLIED SYRIAN AND IRAQI PREPONDERANCE IN MIL EQUIPMENT PARTICULARLY IF THERE IS A RUPTURE IN INTER-ARAB RELATIONS, OR MORE AGGRESSIVE SOVIET PRODDING IN THE AREA. UNDER SUCH AN ASSUMPTION, MILITARY NEEDS WOULD BE FOR CONTINUED MILITARY MODERNIZATION AT MODERATE RATE, AND CONTINUED BUDGET SUPPORT AND DEVELOPMENT AID AT HIGH LEVELS UNTIL END OF DECADE TO SUPPORT IMMEDIATE JORDANIAN

PEACETIME DEVELOPMENT EFFORTS.

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(C) MEDIAN CASE: AS THE BASIS FOR OUR SECURITY ASSISTANCE RECOMMENDATIONS, WE ASSUME PROGRESS IN MIDEAST NEGOTIATIONS BUT NO IMMEDIATE BREAKTHROUGH TO FORMAL PEACE FOR OUTYEARS WE ASSUME PEACEFUL CONDITIONS WILL ALLOW SERIOUS START ON DEVELOPMENT WITHIN 2-3 YEARS. WE EXPECT FUNDAMENTAL ARAB-ISRAELI PROBLEMS WILL NOT BE RESOLVED AND THAT JORDAN IN ITS KEY ROLE WILL EXPERIENCE GREATEST POLITICAL HEAT DURING THIS PERIOD, BASED ON PRESSURES FROM MANY ARAB QUARTERS TO ABANDON MIDEAST ROLE TO PLO AND FROM RADICAL QUARTERS TO RESIST COMPROMISE WITH ISRAEL; E.G. ATTEMPTED SUBVERSION BY PALESTINIAN TERRORISTS, BORDER INCIDENTS STIMULATED BY IRAQ, AND, UNDER EXTREME CIRCUMSTANCES, SUSPENSION OF SAUDI OR KUWAITI SUBSIDIES UNDER PLO PRESSURE. ANY OF THESE CONTINGENCIES WOULD INCREASE GOJ NEEDS FOR U.S. AID. IN SUMMARY, OVER COMING YEARS WE WOULD SEE CONTINUED NEED STRENGTHEN JORDAN 1) MILITARILY AGAINST BOTH CAPABILITIES AND INTENTIONS OF SYRIA AND/OR IRAQ. 2) FINANCIALLY AGAINST TOTAL RELIANCE ON ARAB BUDGET SOURCES. AND 3) POLITICALLY IN ORDER TO MAINTAIN U.S. INFLUENCE ON JORDAN IN

SUPPORT OF U.S. OBJECTIVES IN MIDEAST NEGOTIATIONS.

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8. MILITARY PROGRAM: OCTOBER WAR EXPERIENCE HAS CAUSED JORDAN ARMED FORCES (JAF) TO REEVALUATE MILITARY REQUIREMENTS. ALREADY AWARE OF MASSIVE INFERIORITY IN HARDWARE VIS-A-VIS SYRIA, DURING OCTOBER EXPERIENCE ON SYRIAN FRONT JAF OFFICERS WERE FAVORABLY IMPRESSED WITH SYRIAN FIGHTING CAPABILITIES AND WITH SIGNIFICANT SYRIAN SUPERIORITY OVER JORDAN IN SOPHISTICATED WEAPONS, PARTICULARLY SAM-6, ANTI-TANK MISSILES AND LARGE NUMBERS OF MODERN TANKS AND AIRCRAFT. THIS FEELING HAS FILTERED THROUGH MILITARY RANKS AND THERE IS PRESSURE FOR SIMILAR US-SUPPLIED EQUIPMENT. JAF FEELS PARTICULARLY VULNERABLE TO AIR ATTACKS GIVEN JORDAN'S LACK OF A VIABLE AIR DEFENSE AGAINST NEW EQUIPMENT PRESENT IN SYRIAN AIR FORCE AND SYRIAN MOBILE AIR DEFENSE CAPABILITY. IT IS DOUBTFUL HOWEVER THAT JORDAN COULD AFFORD ACHIEVE ADEQUATE PROTECTION FROM MAJOR AIR ATTACKS FROM SUCH A SYSTEM.

9. WE ARE ALSO SKEPTICAL THAT JAF HAS FURTHER SIGNIFICANT EQUIPMENT NEEDS IN OTHER AREAS. ASSUMING GOJ RECEIVES THE FULL \$130 MILLION IN FY 75 MAP/FMS PROGRAMS, THIS SUM, COUPLED WITH OVER \$55 MILLION IN SAUDI, ABU DHABI AND GULF AID IN PAST FISCAL YEAR WILL PERMIT ARMY TO COMPLETE MOST OF ITS GROUND FORCE MODERNIZATION BY FY 76. NEW REQUIREMENTS WILL BE MAINLY IN TOW MISSILES, AIR DEFENSE WEAPONS, SP ARTILLERY AND NIGHT VISION DEVICES. AS FOR AIR FORCE, THE PROJECTED ADDITION OF 24 F5E'S UNDER MAP AND POSSIBLY ADDITIONAL 12 F5E'S UNDER FMS CASH PLUS POSSIBLE ACQUISITION OF 20 USED F-104'S UNDER EDA AND 20 USED F-5A'S FROM IRAN SHOULD STRETCH JORDANIAN ABSORPTIVE CAPACITY FOR SEVERAL YEARS. THIS DOES NOT INCLUDE 17 A-37'S UNDER MIMEX WHICH JORDAN IS INTERESTED IN ACQUIRING IF IT CAN DEMONSTRATE AN ABSORPTIVE CAPABILITY. WITH POSSIBLE AND HIGHLY DESIRABLE PENDING SALE OF 31 HAWKER HUNTERS, ADDITION OF ABOVE 93 AIRCRAFT WOULD STILL MAKE NET ADDITION OF 62 AIRCRAFT TO INVENTORY. ALTHOUGH WE STILL ANTICIPATE REQUESTS FOR SOME F-5E'S AND C-130'S IN OUTYEARS, INCREASINGLY THE PRIORITY WILL DRIFT TO AN AIR DEFENSE SYSTEM.

10. ZARQA INCIDENT EXPOSED DEGREE TO WHICH ARMY COMPRISES SPECIAL INTEREST GROUP AND IS LIKELY TO REQUIRE CONTINUAL EXERCISE OF ROYAL PATRONAGE AND DEVOTION TO ITS WELFARE. VIRTUALLY ENTIRE REGULAR JAF BUDGET ALREADY DEVOTED TO ARMY PERSONNEL COSTS AND

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TO REGULAR ARMED FORCES OPERATING EXPENSES. KING'S PERCEIVED NEED TO MAINTAIN HIS PRIMARY POLITICAL BASE WILL PROBABLY MEAN EVEN GREATER BUDGET EMPHASIS ON SUCH ACTIVITIES IN THE FUTURE. SALARY AND COMFORT LEVEL OF ENLISTED MEN WAS A PARTICULARLY SORE POINT IN WAKE OF ZARQA AND STILL IS. JUDGING FROM KING'S APPARENTLY SUCCESSFUL ATTEMPTS TO ACQUIRE \$4 MILLION FROM QATAR FOR BARRACKS AND \$12 MILLION FROM SAUDI ARABIA FOR A NEW AIRFIELD KING IS DIRECTING SIMILAR PRIORITY IN GULF AID FOR ACTIVITIES ORIENTED TOWARDS TROOP COMFORT.

11. OTHER IMPORTANT CONCERN IS COMULATIVE SUPPORT BURDEN FOR US EQUIPMENT ARRIVING DURING FY 76-79 PERIOD. ALTHOUGH JAA MAKING GREAT EFFORT AT DISPOSAL THROUGH SALE OF SIGNIFICANT SURPLUS AND OVERAGE END ITEMS, NET INCREASED INVENTORY GROWING APACE AND WILL GRADUALLY REQUIRE INCREASED MAINTENANCE RESOURCES. WHILE ACTUAL JAA SUPPORT COSTS ARE ALWAYS FAR LESS THAN US ESTIMATES, WE EXPECT THAT EVENTUALLY JAA WILL EXPERIENCE AN ESCALATING RISE IN SUPPORT COSTS AS CURRENT AND ANTICIPATED DELIVERIES OF MAJOR QUANTITIES OF EQUIPMENT GRADUALLY EXPERIENCE THE AGING FACTOR. THESE DELIVERIES INCLUDE EQUIPMENT UNDER THE FY 1971-1974 \$120 MILLION MODERNIZATION PROGRAM; THE ABU DHABI-FINANCED \$42 MILLION BUY THIS YEAR OF 524 APC'S AND 97 MORTAR CARRIERS; THE MAINTENANCE AND REHABILITATION OF SIGNIFICANT US MIMEX EXCESS DEFENSE ARTICLES, AND THE \$130 MILLION IN FY 75 MAP/FMS PROGRAM. (DUE TO 2-3 YEAR DELIVERY LEAD TIMES PLUS 1-2 YEARS SUPPLY OF CONCURRENT SPARE PARTS AND LESSAR JAA USAGE OF EQUIPMENT, THERE IS A CONSIDERABLE LAG IN THE ECONOMIC IMPACT OF SUPPORT COSTS FOR NEW EQUIPMENT.)

12. THE MAJOR JAA RESPONSE TO THE SUPPORT PROBLEM IS THE ZARQA ARMORED TRACKED VEHICLE REBUILD FACILITY, CURRENTLY STILL IN THE PLANNING STAGE. THIS FACILITY WILL PROVIDE IN-COUNTRY REBUILD FOR VIRTUALLY ALL JAA ARMORED TRACKED VEHICLES, (AND PERMIT EXPANSION OF EXISTING WHEELED VEHICLE REBUILD-REPAIR FACILITY), STARTING WITH THE LARGE BACKLOG OF VEHICLES CURRENTLY REQUIRING REBUILD AND CONTINUING LATER WITH THE US MODERNIZATION EQUIPMENT AS IT REQUIRES REHABILITATION. THIS FACILITY WILL ALSO ENABLE THE JAF TO DIESELIZE AND UPGUN ITS PRESENT INVENTORY OF M48A1 TANKS. THIS IS A MAJOR JAA PROJECT WHICH DESERVES A HIGH PRIORITY IN THE US MAP/FMS PROGRAM. ITS SUCCESS WILL NOT ONLY HELP RELIEVE THE INCREASING JAA ECON-
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OMIC SUPPORT BURDEN BUT WILL PROVIDE THE JAF WITH AN ALTERNATIVE TO PURCHASING MORE ADVANCED TANKS PRIOR TO 1980'S. ULTIMATELY IT COULD ALSO SERVE TO INCREASE EXTERNAL GULF AID TO JORDAN BY OFFERING USE OF ITS REBUILD FACILITY FOR SOME OF THOSE COUNTRIES' EQUIPMENT.

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13. SUPPORT COSTS: WE CONTINUE TO BE CONCERNED OVER POSSIBLE ADVERSE IMPACT OF GROWING JAA SUPPORT BURDEN ON THE CIVILIAN ECONOMY IN OUTYEARS. DUE TO DELIVERY AND MAINTENANCE LAGS, WE ANTICIPATE FOR INSTANCE THAT MAJOR ECONOMIC IMPACT OF SUPPORT 1972-75 EQUIPMENT ACQUISITIONS--MAJOR OVERHAUL, SPARE PARTS REQUIREMENTS--WILL OCCUR DURING 1974-1979 PERIOD. UNFORTUNATELY, THIS IS PRECISELY THE TIME, FOLLOWING THE COMPLETION OF THE 1972-1975 THREE-YEAR DEVELOPMENT PLAN--ASSUMING A MANAGEABLE JAA DEFENSE BUDGET AND CONDITIONS OF STABILITY IN THE MIDEAST--WHEN JORDAN WILL BE TRYING TO MAKE A MAJOR EFFORT TO SHIFT EMPHASIS FROM MILITARY TO ECONOMIC DEVELOPMENT SECTORS.

14. JAF BUDGET: JAF BUDGET (IF EXTERNAL MIL ASSISTANCE INCLUDED) HAS GROWN FASTER THAN OTHER SECTORS IN PAST YEARS, AND BUDGET PLUS EXTERNAL AID PROJECTIONS INDICATE EVEN GREATER PROPORTIONAL INCREASE IN IMMEDIATE FUTURE:

(MILLION JORDAN DINARS--1 JD EQUALS \$3.30)

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	TOTAL	CIVIL	PUBLIC	ARMED	CAP.
	EXPEND.	RECURRING	SECURITY	FORCES	EXP.
1971	82.4	24.2	4.5	33.8	17.2
1972	95.3	26.5	4.7	39.2	20.5
1973	101.3	32.0	5.0	39.5	17.6
1974	107.5	39.5	5.7	43.6	18.7

(EST)

NOTE 1974: THESE ARE GOJ BUDGET ESTIMATES AND THEREFORE ARE NOT DIRECTLY COMPARABLE TO THE 71-73 FIGURES WHICH ARE ACTUAL EXPENDITURES.

AS CHART INDICATES, MILITARY BUDGET HAS GROWN FROM 39.5 MILLION JDS IN 1973 TO 43.6 MILLION IN 1974, TO JAF PROJECTED 49 MIL IN 1975. IN REALITY, JAF SHARE OF TOTAL RESOURCES AVAILABLE TO JORDAN IS FAR HIGHER THAN BUDGET SHOWS, SINCE MUCH MILITARY ASSISTANCE PROVIDED BY U.S. AND GULF STATES IS NOT ENTERED ANYWHERE IN JORDANIAN BUDGET.

15. BASIC CONCEPTUAL PROBLEM WITH JAF BUDGET IS THAT IT ONLY COVERS PART OF JAF EXPENSES: PAY AND ALLOWANCES, AND OPERATING COSTS; MEANWHILE, U.S. MAP AND AD HOC GULF AID IS VIRTUALLY ONLY SOURCE OF EQUIPMENT PROCUREMENT AND NEW CONSTRUCTION, ALL OF WHICH THEN BECOMES A SUPPORT BURDEN ON JAF BUDGET. WITH COMBINATION OF GROWING JAF INVENTORY AND CONSTRUCTION PROJECTS, PLUS RISING LIVING EXPECTATIONS OF MIL PERSONNEL, WE SEE A CRUNCH COMING ON JAF BUDGET IN COMING YEARS. RECENT JAF STUDY ESTIMATES THAT SPARE P
RTS AND AMMO SUPPORT COSTS FOR U.S.
EQUIPMENT WILL INCREASE FROM \$8 MILLION IN 1973, TO \$15 MILLION IN 1974 TO \$22 MILLION IN 1975.

16. GOJ WILL THEREFORE CONFRONT PROBLEM IN OUTYEARS IN MEETING INCREASED SUPPORT COSTS INVOLVING ONE OR COMBINATION OF FOLLOWING CHOICES:

1) DECREASE JAF INVENTORY; 2) INCREASE JAF BUDGET, AT EXPENSE CIVILIAN SECTOR OR IN EXPECTATION OF ADDITIONAL EXTERNAL FINANCIAL SUPPORT, OR 3) BE PREPARED TO PROGRAM SIGNIFICANT LEVELS OF MAP FOR O AND M RATHER THAN END ITEMS. IN ACTUALITY, THE DECISION IN THIS MATTER WILL BE MADE PRIMARILY BY GOJ. WE
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SHOULD BE PREPARED HOWEVER TO ALLOW SOME FLEXIBILITY IN GENERAL DOD POLICY OBJECTIVE OF REDUCING MAP PROVIDED O AND M SUPPORT IF SUCH A PRACTICE CAN SERVE TO REDUCE ADVERSE IMPACT OF MIL

BURDEN ON GOJ ECONOMIC DEVELOPMENT OBJECTIVES. WE WOULD THEREFORE EXPECT TO SEE PRESSURES FROM GOJ FOR AN INCREASINGLY LARGE PROPORTION OF MAP ASSISTANCE GOING FOR O AND M COSTS IN THE OUTYEARS.

17. ON REVENUE SIDE, JORDAN WILL CONTINUE ITS HEAVY DEPENDENCE ON FOREIGN FINANCIAL ASSISTANCE. ALTHOUGH RESUMPTION OF KUWAITI ASSISTANCE HAS RELIEVED DESPERATE BUDGET PRESSURES FOR MOMENT, VAGARIES OF PALESTINIAN AND MIDEAST ISSUE IN COMING MONTHS COULD CONCEIVABLY RESULT IN LOSS OF ARAB REVENUES. EVEN UNDER OPTIMISTIC ASSUMPTIONS, GOJ WILL REQUIRE HIGH LEVELS OF BUDGET SUPPORT IN OUTYEARS. WE WOULD HOWEVER HOPE TO EARMARK INCREASING PORTIONS FOR DEVELOPMENTAL PURPOSES IN FUTURE YEARS. MOST PROMISING NEW SOURCE OF REVENUE IS IN MILITARY ASSISTANCE FIELD FROM OIL-RICH STATES. DURING PAST YEAR, FOLLOWING COMMITMENTS HAVE BEEN MADE:

A) ABU DHABI: - \$10 MILLION FOR MISCELLANEOUS MILITARY USE,
\$42 MILLION FOR APC'S
\$8 MILLION FOR UK RADAR;
\$5.3 MILLION FOR PURCHASE OF SALADINS.

B) SAUDI ARABIA: UP TO \$22.5 MILLION FOR AIR FORCE BUDGET
(4 C-130, SPARE PARTS, AIRFIELD REPAIRS)
\$12 MILLION FOR AIRFIELDS
\$30 MILLION FOR FY 75 FMS CREDIT REPAYMENT.

C) QATAR \$4 MILLION FOR BARRACKS.
THIS AID IN MANY CASES IS REPAYMENT - WITH GREAT NET BENEFIT TO JORDAN--FOR JORDANIAN MILITARY TRAINING, EQUIPMENT TRANSFERS AND OTHER AID TO GULF STATES.

18. FMS CREDITS FROM THIRD COUNTRIES: HERETOFORE, THIRD COUNTRY AID HAS BEEN AD HOC AND SPORADIC. WE SHOULD TRY TO REGULARIZE IT. IT IS IN USG INTEREST TO SHARE FINANCIAL BURDEN IN JORDAN WITH SAUDI ARABIA AND GULF STATES. STARTING WITH THE \$30 MILLION FMS CREDIT ARRANGEMENT WHICH SAUDI ARABIA RECENTLY AGREED TO FINANCE, WE BELIEVE FMS CASH AND CREDIT FACILITIES TO JORDAN
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CAN HELP ATTRACT MORE GULF FUNDS TO JORDAN FROM THEIR ANTICIPATED SURPLUSES. ALTHOUGH WE ADMIT THAT CURRENT TREND STRONGLY EMPHASIZES MILITARY SECTOR, WE WOULD HOPE OVER LONG TERM TO STEAR U.S. AND GULF FUNDS INCREASINGLY TO CIVILIAN PURPOSES, SINCE WE MUST ADMIT THAT CURRENT MILITARY NEAR-MONOPOLY ON GULF FINANCING FURTHER DISTORTS RESOURCE PRIORITIES.

19. ON THE OTHER HAND PROCEEDING WITH THIRD COUNTRY SUPPORT FOR JORDANIAN ASSISTANCE IS NOT COMPLETELY WITHOUT DRAWBACK. AIR DEFENSE IS VERY EXPENSIVE, AND TOGETHER WITH OTHER ITEMS

WHICH MAY BE FUNDED BY ARAB STATES AS OUTLINED IN PARA ABOVE,
IT COULD ADD CONSIDERABLY TO O AND M COSTS WITHOUT REASONABLY
MEETING ANY WELL-DEFINED MIL POSTURE. WE DO MAINTAIN SOME
CONTROL THROUGH FACT THAT FMS CASH AND CREDIT ARRANGEMENTS
SUPPORT BY ARAB STATES WOULD BE SUBJECT TO OUR VETO ALTHOUGH
OTHER SUPPLIERS COULD BE TURNED TO ONCE WE HELP RAISE JORD-
ANIAN INTEREST.

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20. FURTHER, WE CANNOT NECESSARILY ASSUME ARAB FINANCING REDUCES
THE REQUIREMENT FOR U.S. FUNDS. IF A MUTUALLY AGREED ASSESSMENT
OF ACTUAL MILITARY REQUIREMENTS DETERMINES THE MIL ASSISTANCE
LEVELS, ONE FINANCING SOURCE SUBSTITUTES FOR ANOTHER. HOWEVER,
THIS NEED NOT BE TRUE WHEN, AS IS THE PRESENT CASE, SHORT
RUN POLITICAL OBJECTIVES ESSENTIALLY DETERMINE THE LEVEL OF OUR
MIL ASSISTANCE AND THE EXTENT OF THE U.S. INTEREST AND
COMMITMENT IS MEASURED DIRECTLY IN TERMS OF OUR CONTRIBUTION.

21. ECONOMIC CONSIDERATIONS:

A) BEST CASE; IN TERMS OF OVERALL U.S. POLICY OBJECTIVES

IN JORDAN, OUR ANALYSIS INDICATES THERE IS CONSIDERABLE POTENTIAL FOR ECONOMIC DEVELOPMENT UNDER THE BEST CASE DESCRIBED IN THIS PAPER (PARA 6B ABOVE.) REAL GROWTH OF GDP COULD REACH 7 PERCENT TO 8 PERCENT A YEAR OVER THE NEXT TEN YEARS WITH THE LIKLIHOOD THAT DOMESTIC SAVINGS WOULD SATISFY DOMESTIC INVESTMENT NEEDS TOWARD THE END OF THE DECADE, THUS GRADUALLY REDUCING THE NEED FOR BUDGET SUPPORT FROM THE U.S. BALANCE OF SECRET

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PAYMENT DIFFICULTIES WOULD CONTINUE WELL INTO THE 1980'S, BUT WITH A DECLINING DEFICIT ON FOREIGN ACCOUNT BY 1976 OR 1977. UNDER THESE CIRCUMSTANCES, THE U.S. COULD BEGIN SHIFT SOON TO AN ECONOMIC DEVELOPMENT RATIONALE AND EXPECT OUR BUDGET SUPPORT ASSISTANCE TO DECLINE TOWARD THE END OF THE DECADE.

B) WORST CASE; THE CONTINUATION OF A NO WAR/NO PEACE SITUATION, HOWEVER, WILL DELAY THESE MORE FAVORABLE DEVELOPMENTS. POLITICAL UNCERTAINTY ADVERSELY AFFECTS THE DEVELOPMENT PROCESS BY DISCOURAGING INVESTMENT AND TOURISM, AND DIVERTING GOVERNMENTAL ATTENTION FROM THE PROBLEM OF DEVELOPMENT. ALSO, AS LONG AS OUR ASSISTANCE LEVELS ARE DETERMINED PREDOMINANTLY BY POLITICAL CIRCUMSTANCES, WITH LITTLE REGARD FOR DEVELOPMENTAL OR OTHER CALCULABLE NEEDS, WE FOREGO ANY LEVERAGE ON THE DEVELOPMENTAL AS WELL AS BUDGETARY PROCESS. CONSIDERABLE BUDGETARY DISCIPLINE IS NEEDED IN ORDER FOR JORDAN TO ACHIEVE ITS GROWTH POTENTIAL. HOWEVER, THE DOMESTIC PRESSURE ON GOVERNMENT CONSUMPTION, PARTICULARLY DEFENSE EXPENDITURES, APPEARS SUBSTANTIAL ENOUGH TO RAISE DOUBTS ABOUT THE GOVERNMENT'S CAPACITY TO KEEP THEM IN LINE, IF WE AND PERHAPS OTHER DONORS DO NOT EXERT PRESSURE IN THIS DIRECTION. IF THE NO PEACE/NO WAR ASSUMPTION ESSENTIALLY PREVENTS US FROM DOING SO, THEN WE PROBABLY CAN ANTICIPATE A BUDGET SUPPORT REQUIREMENT AT LEAST AT CURRENT LEVELS, WITH ONLY LIMITED OPPORTUNITY TO CONTRIBUTE TO OUR DEVELOPMENTAL OBJECTIVES FOR AS LONG AS THIS ASSUMPTION HOLDS.

C) MEDIAN CASE: THE FOLLOWING ECONOMIC PROJECTIONS ARE BASED ON THE MEDIAN CASE POLITICAL ASSUMPTIONS WHICH FORM THE PLANNING BASIS FOR OUR POLICY OBJECTIVES. THEY ASSUME THE CURRENT MIDEAST SITUATION WILL CONTINUE FOR TWO TO THREE YEARS, BUT TOWARD THE END OF THE DECADE THE MIDEAST NEGOTIATIONS, WHILE PERHAPS SHORT OF A "FINAL" SETTLEMENT, WILL HAVE CONTRIBUTED IN AN IMPORTANT MEASURE AT LEAST TO THE PROSPECTS FOR PEACE IN THE REGION. IN SUCH AN ENVIRONMENT WE MIGHT REASONABLY EXPECT JORDAN TO BEGIN TO SHIFT SIGNIFICANT RESOURCES AND EFFORT TOWARD THE SOLUTION OF ITS LONGER RANGE DEVELOPMENTAL PROBLEMS.

22. UNDER THESE ASSUMPTIONS, REAL GROWTH OF GDP THEN IS PROJECTED AT ABOUT 6 PERCENT A YEAR THROUGH 1976, AFTER WHICH A

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GROWTH RATE OF 7 PERCENT TO 8 PERCENT MIGHT BE EXPECTED AS ECONOMIC DEVELOPMENT RECEIVES HIGHER GOJ PRIORITY.

1. (NOTE) GROSS DOMESTIC PRODUCT (1972 PRICES) JORDAN DINARS

1972	1973	1976	1980
239.5	258.6	316	430

(NOTE) THESE FIGURES INCLUDE BOTH THE EAST AND WEST BANKS AS JORDAN PUBLISHES DATA ONLY FOR ITS PRE-1967 BORDERS.

23. AS SHOWN IN TABLE II, THESE RATES REQUIRE ALMOST A DOUBLING OF THE 1972 LEVEL OF GROSS INVESTMENT BY 1980 (1973 FIGURES ARE NOT YET AVAILABLE).

II. SAVINGS & INVESTMENT (1972 PRICES)

	1972	1976	1980
GROSS DOMESTIC REVENUE		38	65 95
GOVERNMENT CONSUMPTION		69.7	85 110
GOVERNMENT SAVINGS		-30.3	-30 -15
PRIVATE CONSUMPTION		192	270 355
PRIVATE SAVINGS		37.2	48 65
GROSS INVESTMENT		42.6	56 80
GROSS SAVINGS		-3	23 50
DEFICIT CURRENT ACCOUNT		-10.1	-62 -85
(DEF. FOREIGN ACCT.)		(-68.9)	(-105) (-115)

24. HOWEVER, THE TABLE ALSO REVEALS THAT GROSS SAVINGS FALL SHORT OF THE INVESTMENT NEEDS EVEN BY 1980. WITH SUBSTANTIAL INCREASES IN PROFITS FROM PHOSPHATES, AND TO A LESSER EXTENT FROM THE GROWTH OF TAX REVENUES RESULTING IN THE RISE IN GDP, DOMESTIC REVENUES COULD INCREASE AT PERHAPS 12 PERCENT A YEAR UNTIL 1976. A MORE RAPID GROWTH SHOULD OCCUR IN LATER YEARS REFLECTING A GREATER GOJ COMMITMENT TO DEVELOPMENT. GOVERNMENT CONSUMPTION IN ALL PROBABILITY WILL GROW AT LEAST AS RAPIDLY AS REVENUE UNDER CURRENT POLITICAL CONDITIONS. AS PEACE SEEMS MORE LIKELY FROM 1976 ONWARD, PERHAPS PUBLIC SECTOR CONSUMPTION COULD BE REDUCED TO 7 TO 8 PERCENT. PRIVATE SAVING IS NOT LIKELY TO INCREASE RAPIDLY ENOUGH TO OFFSET THE NEGATIVE SAVINGS IN THE PUBLIC SECTOR, IMPLYING A BUDGET SUPPORT REQUIREMENT AT NEARLY CURRENT AMOUNTS FOR THE DURATION OF THE PLANNING PERIOD.

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25. A SIGNIFICANT BALANCE OF PAYMENTS GAP ALSO CAN BE ANTICIPATED (SEE TABLE III). RAPID GROWTH OF EXPORTS OF MINERALS ARE PROJECTED EVEN IN THE SHORT RUN AND CONSIDERABLE IMPROVEMENT IN NET SERVICES ALSO SHOULD OCCUR IN THE NEXT FEW YEARS. A GREATER WILLINGNESS TO RESTRICT THE IMPORTATION OF CONSUMER GOODS, AND AN INCREASED FLOW OF TOURIST RECEIPTS UNDER MORE PEACEFUL CONDITIONS COULD REDUCE THE GROWTH RATE OF THIS PAYMENTS GAP, ALTHOUGH IT PROBABLY WILL NOT DECLINE SIGNIFICANTLY UNTIL INTO THE 1980'S. EVEN IF ARAB FINANCING REACHED PRE-1970 LEVELS OF JD 40 MILLION TO JD 50 MILLION, A MAJOR BALANCE OF PAYMENTS GAP WILL REMAIN FOR THE FORESEEABLE FUTURE WHICH WILL REQUIRE THE CONTINUATION OF HIGH LEVELS OF SUPPORTING ASSISTANCE--ALTHOUGH INCREASING AMOUNTS COULD BE EARMARKED FOR DEVELOPMENTAL PURPOSES.

III. BALANCE OF PAYMENTS (1972 PRICES)

	1972	1976	1980
EXPORTS OF GOODS	17.01	30.0	52.0
IMPORTS OF GOODS	-94.88	-150.0	-197.0
NET SERVICES	8.88	15.0	30
BALANCE	-68.99	-105.0	-115

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ACTION PM-07

INFO OCT-01 NEA-14 ISO-00 AID-20 CIAE-00 DODE-00 H-03

INR-10 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

SS-20 USIA-15 ACDA-19 TRSE-00 OMB-01 DRC-01 IO-14

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CIEP-02 COME-00 /172 W

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26. UNDER MEDIAN POLITICAL ASSUMPTIONS ECONOMIC DEVELOPMENT IN GENERAL THEN WILL PROCEED SOMEWHAT MORE SLOWLY THAN UNDER THE BEST CASE CIRCUMSTANCES, POSTPONING THE DATE WHEN A MAJOR SHIFT FROM BUDGET SUPPORT TO DEVELOPMENTAL ASSISTANCE IS FEASIBLE AND ADDING TO OVERALL U.S. ASSISTANCE REQUIREMENTS. ANY EFFORT TO ACHIEVE OUR ECONOMIC DEVELOPMENT OBJECTIVES BY AND LARGE WILL REQUIRE FUNDS OVER AND ABOVE CURRENT LEVELS, AT LEAST UNTIL TOWARDS THE END OF THE DECADE. SOME CAPITAL PROJECT FINANCING IN THE VALLEY AND ELSEWHERE SEEMS WARRANTED. WE ALSO COULD ASSIST IN THE PREPARATION AND/OR EVALUATION OF KEY SECTOR PLANS. ON A LIMITED SCALE WE MIGHT WISH TO RESPOND TO THE GOJ REQUEST TO ASSIST MORE CLOSELY IN THE IMPLEMENTATION OF VARIOUS PROJECTS AS WELL. SUCH EFFORTS WOULD NOT PRODUCE MAJOR DEVELOPMENTAL BENEFITS IN THE SHORT RUN, BUT THEY COULD SET THE STAGE FOR A MORE SERIOUS DEVELOPMENTAL PROGRAM A FEW YEARS FROM NOW. WITH SUCH WIDE FLUCTUATION IN RAINFALL, JORDAN ALSO PROBABLY WILL REQUIRE PL-480 TITLE I WHEAT IN TWO OUT OF EVERY THREE OR FOUR YEARS, ALTHOUGH THE AVERAGE FOR THE PERIOD MAY DECLINE SOMEWHAT FROM THE EARLIER PERIOD (E.G. APPROX SECRET

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\$15 MILLION PL-480 DELIVERED IN FY 74) AS AVERAGE YIELDS GRADUALLY IMPROVE.

27. TO THE EXTENT GRANT MIL FUNDS ARE INSUFFICIENT TO COVER THE LEVEL OF OUR MILITARY ASSISTANCE DEEMED NECESSARY, FMS CREDIT FINANCING MAY BE DESIRABLE. FROM A DEVELOPMENTAL STANDPOINT, HOWEVER, LOAN FINANCING OF OUR MILITARY PROGRAM SHOULD BE KEPT TO A MINIMUM UNLESS OF COURSE SUCH LOANS ARE UNDERWRITTEN BY THIRD COUNTRIES RATHER THAN JORDAN. WHILE THE FOREIGN DEBT BURDEN CURRENTLY IS SMALL AND SEEMINGLY PERMITS ADDITIONAL FOREIGN BORROWING DURING THE PERIOD OF ANALYSIS, WE SIMPLY ADD TO JORDAN'S FUTURE BALANCE OF PAYMENTS PROBLEMS BY USING FMS CREDIT. SINCE WE HAVE A LONGER RANGE INTEREST IN JORDAN, THE BENEFITS IN THE SHORT RUN OF FMS CREDIT VS. GRANTS WILL BE OFFSET IN LARGE MEASURE BY INCREASED ECONOMIC ASSISTANCE REQUIREMENTS SOMETIME IN THE FUTURE. THE CURRENT CAPACITY TO ABSORB ADDITIONAL FOREIGN DEBT MIGHT BEST BE USED FOR MORE ECONOMICALLY PRODUCTIVE ACTIVITIES.

28. RECOMMENDATIONS: WE DRAW FOLLOWING RECOMMENDATIONS FROM ABOVE ANALYSIS:

(A) MILITARY ASSISTANCE: HIGH VOLUME OF ARMS DELIVERIES, PARTICULARLY SOPHISTICATED GROUND FORCE EQUIPMENT, AIRCRAFT AND MISSILES TO JORDAN'S NEIGHBORS--ISRAEL, SYRIA, IRAQ AND SAUDI ARABIA--WILL CONTINUE DRIVE JAF DESIRE FOR ARMS AT ROUGHLY

THE FY 75 LEVEL. ONLY OPTION OPEN TO U.S. IN CONTEXT CONTINUING CLOSE US-GOJ RELATIONSHIP IN INTENSE MIDEAST ATMOSPHERE IS TO REDUCE HIGH GOJ REQUEST LEVELS THROUGH CAREFUL DIPLOMACY AND SPREAD BURDEN AMONG OIL-RICH NEIGHBORS. THIS CAN BE ACCOMPLISHED IN PART THROUGH A RELATIVE SHIFT FROM US GRANT AID TO FMS CREDIT WITH LATTER FINANCED BY OIL-RICH NEIGHBORS.

IN FY 76 WE SEE FOLLOWING:

MAP - \$60 MILLION;
FMS CREDIT - \$50 MILLION (REPAID BY SAUDI ARABIA/GULF STATES);
FMS CASH IS ALSO AN AVAILABLE OPTION, PROVIDED JORDAN ABLE OBTAIN FINANCING FROM GULF STATES.

IN FY 77-80 PERIOD WE WOULD RECOMMEND DECREASE IN MAP TO
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ABOUT \$20 MILLION ANNUAL LEVEL AS RAPIDLY AS POLITICAL/MILITARY CONDITIONS PERMIT, WITH INCREASED PROPORTION PROGRAMMED FOR SUPPORT RATHER THAN END ITEMS. FMS CASH AND CREDIT WOULD BE AVAILABLE FOR MODEST END ITEM PROGRAM ON CONDITION OF EXTERNAL FINANCING.

(B) SUPPORTING ASSISTANCE IN FY 76 - \$60 MILLION ANNUALLY. WE BELIEVE WE SHOULD SEEK APPROXIMATELY SAME LEVELS AS IN PREVIOUS TWO YEARS (\$60 MILLION), ON US AND GOJ RECOGNITION THAT FINAL FIGURE CONTINGENT ON SAUDI AND KUWAITI FUNDS AND EXACT JORDANIAN BUDGET SITUATION. WE RECOGNIZE POSSIBLE NEED FOR SPECIAL POLITICAL "CUSHION" TO MAINTAIN DOMESTIC STABILITY AND PERMIT AN ACTIVE GOJ POLITICAL PROGRAM ON WEST BANK DURING INCOMING YEAR IN ORDER TO HELP ACCOMPLISH US AND GOJ POLITICAL OBJECTIVE IN MIDEAST NEGOTIATION.

29. WE RECOGNIZE LONG-TERM PROBLEM WE ARE CREATING, BY INCREASING JORDANIAN DEFENSE BURDEN AS GOJ CONTINUES FLOAT ON BUBBLE OF FOREIGN AID-ENGENDERED PROSPERITY, WITHOUT PRESENT PROSPECT OF DEVELOPING VIABLE DOMESTIC ECONOMY. OUR MAJOR JUSTIFICATION FOR HIGH AID LEVELS IS CRITICAL PRIORITY OF EXERTING U.S. INFLUENCE IN MIDEAST NEGOTIATIONS CONTEXT OVER COMING YEAR. ALTHOUGH OUR ECONOMIC ANALYSIS UNDER MEDIAN ASSUMPTIONS INDICATES A NEED FOR CONTINUING EXTERNAL FINANCIAL AID TO ROUGHLY CURRENT LEVELS THROUGHOUT THE DECADE, WE WOULD HOPE THAT OIL RICH STATES WOULD PROGRESSIVELY INCREASE THEIR SHARE OF BURDEN. TO THAT END, WE BELIEVE USG SHOULD CONTINUE ASSIST GOJ EFFORTS IMPLANT TECHNICAL ASSISTANCE (NOT JUST MILITARY) PERSONNEL IN PENINSULA AS MEANS DEVELOPING THIS GROWING REVENUE SOURCE.
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